

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-07 CEA-01 L-03 H-01 PA-01
/091 W

-----053567 021805Z /45

R 021717Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9051
DEPARTMENT TREASURY
INFO WHITE HOUSE WASHDC
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 BONN 10140

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

WHITE HOUSE FOR OWEN

DEPARTMENT PASS FRB AND CEA

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: THE GERMAN 1979 DRAFT BUDGET

1. THE CABINET WILL START CONSIDERING THE 1979 DRAFT
BUDGET NEXT WEEK AND IS SCHEDULED TO PASS THE DRAFT
BUDGET ON JUNE 21ST. IT WILL THUS COMPLY WITH A
CONSTITUTIONAL COURT RULING THAT THE TIMETABLE OF
BUDGET CONSIDERATION AND SUBMISSION TO THE LEGISLATURE
HAS TO BE SPEEDED UP SO AS TO MAKE LEGISLATIVE
ENACTMENT OF THE BUDGET PRIOR TO THE COMMENCEMENT
OF THE BUDGET YEAR ON JANUARY 1ST (AS IS REQUIRED
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BY ARTICLE 110 OF THE CONSTITUTION) A MORE REALISTIC
POSSIBILITY. THIS EARLY CABINET PASSAGE OF A 1979
DRAFT BUDGET WILL ALSO PROVIDE A BENCHMARK AGAINST
WHICH "ADDITIONAL" FISCAL STIMULUS CAN LATER BE DECIDED
UPON OR "CONCESSIONS" MADE AT THE JULY EC OR INTER-
NATIONAL SUMMITS.

2. THE DRAFT BUDGET WHICH THE CABINET WILL ADOPT ON JUNE 21ST THUS WILL NOT BE THE ONE EVENTUALLY ENACTED BY THE LEGISLATURE. IT MOST LIKELY WILL BE ENRICHED PRIOR TO THE FALL SESSION OF THE LEGISLATURE BY AT LEAST SOME ADDITIONAL STIMULATIVE MEASURES DECIDED UPON EITHER AT THE JULY SUMMITS OR INDEPENDENTLY BY THE GERMAN GOVERNMENT. BUT EVEN IF NO ADDITIONAL STIMULUS IS INCLUDED, THIS DRAFT BUDGET WILL HAVE TO BE REVISED ON THE REVENUE SIDE SINCE IT DOES NOT TAKE ACCOUNT OF THE REDUCED ECONOMIC GROWTH PROSPECTS FOR 1978 AND 1979 FROM THOSE CONTAINED IN THE MEDIUM TERM FINANCIAL PLAN FROM WHICH THE REVENUE ESTIMATES WILL BE TAKEN. NOR DOES THE BUDGET TAKE ACCOUNT OF THE HIGHER THAN EXPECTED REVENUES DURING THE FIRST FOUR MONTHS OF 1979.

3. NORMALLY THE PREPARATION OF A BUDGET DRAFT WOULD BE PRECEDED OR ACCOMPANIED BY THE PREPARATION OF UP-TO-DATE TAX REVENUE ESTIMATES BY THE WORKING GROUP OF EXPERTS FROM THE GOVERNMENT, THE CENTRAL BANK AND THE INDEPENDENT ECONOMIC RESEARCH INSTITUTES. THIS TIME, HOWEVER, THE GOVERNMENT HAS DECIDED NOT TO CONVENE THIS EXPERT GROUP PRIOR TO CABINET ADOPTION OF THE DRAFT BUDGET. THE OBVIOUSLY NOT OFFICIALLY STATED REASON IS THAT A NEW REVENUE ESTIMATE WOULD REQUIRE A REVISION OF THE NOW CLEARLY UNREALISTIC CONFIDENTIAL

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GNP GROWTH ASSUMPTIONS. THE GOVERNMENT FEARS THAT THIS IN TURN WOULD HEAT UP THE DEBATE ON ADDITIONAL STIMULATIVE MEASURES WHICH IT DOES NOT DESIRE AT THIS TIME. NEW GNP ESTIMATES ALSO WOULD HEAT UP THE DEBATE ON FINANCING THE 1979 (AND BEYOND) DEFICITS IN THE SOCIAL INSURANCE SYSTEM WHICH THE GOVERNMENT DOES NOT DESIRE TO FACE UP TO PRIOR TO THE FALL. ACCORDING TO PRESENT GOVERNMENT PLANS A REVISED REVENUE ESTIMATE THUS WILL NOT BE PREPARED UNTIL JULY OR AUGUST AND THE CABINET APPROVED DRAFT BUDGET WILL THEN HAVE TO BE CHANGED ACCORDINGLY.

4. BECAUSE OF THE PURELY FORMAL, NON-ADDITIONAL-EXPANSIONARY NATURE OF THE DRAFT BUDGET, FINANCE MINISTER MATTHOEFER IS NOT INCLUDING IN IT HIS PREVIOUSLY ANNOUNCED PROPOSAL TO INCREASE FEDERAL EXPENDITURES IN 1979 BY 9 PERCENT. INSTEAD HE IS SHOOTING FOR A "NORMAL" 6 - 7 PERCENT INCREASE IN FEDERAL EXPENDITURES IN THIS BUDGET. THIS DOES NOT MEAN THAT HE NECESSARILY HAS CHANGED HIS MIND ABOUT EITHER THE NEED FOR A MORE EXPANSIONARY FISCAL POLICY OR FOR PROVIDING THIS EXPANSION ON THE EXPENDITURE

SIDE AND MAINLY BY INCREASED GOVERNMENT SUPPORT FOR
R&D. NOR HAS ECONOMICS MINISTER LAMBSDORFF GIVEN UP

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 9052
DEPARTMENT TREASURY
INFO WHITE HOUSE WASHDC
AMEMBASSY BRUSSELS
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AMEMBASSY ROME

C O N F I D E N T I A L SECTION 02 OF 02 BONN 10140

HIS POSITION THAT AN EXPANSIONARY PUSH, IF NEEDED,
SHOULD BE PROVIDED INSTEAD MAINLY BY TAX REDUCTIONS.
BUNDESBANK PRESIDENT EMMINGER IS MORE FIRMLY AND
PUBLICLY THAN EVER REITERATING THE CENTRAL BANK'S
OPINION THAT NO FURTHER STIMULUS IS CALLED FOR. BUT
ALL OF THESE CONFLICTING VIEWS WILL NOT BE -- AS THEY
NORMALLY WOULD BE -- RESOLVED BY THE CABINET
DELIBERATION AND PASSAGE OF A DRAFT BUDGET. INSTEAD
THE DRAFT BUDGET WILL ONLY PROVIDE A BASE LINE AGAINST
WHICH ADDITIONAL STIMULATIVE MEASURES WILL SUBSEQUENTLY
BE DECIDED.

5. WHEN THESE DECISIONS WILL BE MADE REMAINS UNCLEAR.
THE GOVERNMENT CONTINUES TO EMPHASIZE THAT THE ECONOMIC
DATA IS STILL TOO UNCLEAR FOR FIRM JUDGMENTS. SUMMIT
TACTICS ALSO OBVIOUSLY PLAY A ROLE. THERE REMAINS
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THE PROBLEM THAT, ON THE ONE HAND, SCHMIDT FOR TACTICAL REASONS MAY WANT TO AVOID A DECISION PRIOR TO THE SUMMITS SO THAT HE CAN MORE EFFECTIVELY OFFER SOME MORE EXPANSIONARY POLICIES AS A CONCESSION DURING THE MEETINGS. ON THE OTHER HAND, OPINION AMONG GERMAN POLICYMAKERS IS SO DIVIDED THAT WITHOUT A PRIOR CABINET DEBATE AND DECISION, IT MAY BE DIFFICULT FOR THE CHANCELLOR TO COMMIT HIMSELF DURING THE SUMMITS IN ANYTHING BUT VERY GENERAL "BEST EFFORT" TYPE OF TERMS.
STOESSEL

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